

BOB ANTHONY
Commissioner

DENISE BODE
Commissioner

ORIGINAL

ED APPLE
Commissioner

**OKLAHOMA
CORPORATION COMMISSION**

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Office of General Counsel



Lawrence R. Edmison, General Counsel

September 16, 1998

EX PARTE OR LATE FILED

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M. Street
Washington, D.C. 20554

RECEIVED

SEP 17 1998

FCC MAIL ROOM

Re: 1998 Biennial Regulatory Review Docket CC Docket No. 98-81 ASD File No. 98-64

Dear Mr. Caton:

Enclosed herewith please find Ex Parte Reply Comment of the Oklahoma Corporation Commission and (10) copies thereof. We would be most appreciative if you would file the original, file stamp the copies, and return them to us in the self-addressed stamped envelope.

Thank you very much for your assistance in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "DB", followed by a long horizontal line extending to the right.
David B. Dykeman
Assistant General Counsel

cc: Maribeth Snapp
Jim Armstrong
George Mathai

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List A B C D E

**REPLY COMMENT OF THE
OKLAHOMA CORPORATION COMMISSION
CC Docket No. 98-81**

1. The Public Utility Division (PUD) of the Oklahoma Corporation Commission (OCC) urges the Federal Communications Commission (FCC) to reject the request to alter the current accounting treatment of Nonregulated Revenues by consolidating all nonregulated revenues into one account for Class A carriers. Knowing the financial condition as reflected by separate revenue accounting treatment of incumbent telecommunications service providers assists the Commission in its assessment of the level of competition faced by incumbent local exchange telephone companies. Moreover, information obtained from financial reviews will provide indicators to the Commission that Oklahomans are enjoying the full benefits of new evolving telecommunications technology. The proposed account consolidation will make it virtually impossible for the states and the FCC to determine whether a Class A carrier's past experiences in nonregulated ventures are creating pressure for anti-competitive behavior seen through cross subsidization and diminished revenues. More importantly, such a consolidation of nonregulated revenue accounting makes it virtually impossible to differentiate between reversals in service offerings.
2. FCC also proposes to reduce the administrative burden on mid-sized incumbent LECs by streamlining accounting requirements. While we agree in principle, there may be areas that will need to be monitored closely. According to a White Paper filed with the FCC on July 15, a coalition of large LECs said that, "Large

telephone companies could save tens of millions of dollars if the FCC would stop requiring them to keep separate regulatory accounting records in addition to their normal financial books.” Also the proposal to reduce the frequency of independent audits of the cost allocations- audit every two year instead of annually- would significantly reduce the cost of audit requirement and audit costs for mid-sized incumbent LECs. All of the current cost of the administrative tasks mentioned above are embedded in the current rates charged by the LECs to their respective customers. **The OCC strongly believes that the proforma cost savings already acknowledged by the LECs due to the proposed changes by the FCC, should be passed on to the ratepayers.** Any FCC decision that is anticipated to result in cost savings by the LEC should be linked to a specific requirement to pass such savings through to customers within a specified time frame.

3. In addition, the Public Utility Division of the Oklahoma Corporation Commission supports the following comments advanced by the Pennsylvania Public Utility Commission:
 - “The PaPUC supports reduced requirements for mid-size local exchange carriers (LECs) with three qualifications. These qualifications concern the FCC’s
 - 1) continued oversight capability, 2) modification of the threshold whereby a mid-size carrier avoids the Class A reporting requirements, and 3) preservation of the state’s regulatory rights governing mid-size carriers. (PaPUC-3)

- As PaPUC has stated, one of the qualifications concerns the preservation of state authority over the accounting and cost allocation requirements of mid-size carriers. The FCC's regulatory flexibility must not supplant a state's treatment of a mid-size carrier. That is because the states, given their proximity to and knowledge of the local situations, may want a greater degree of accountability for mid-size carriers either individually or industry-wide. (PaPUC-6)
- The FCC's approach must expressly permit states to require Class A reporting requirements on mid-size carriers, either individually or industry-wide, for mid-size carriers with more than 50,000 access lines but less than those of the smallest Class A carrier. The FCC's approach should also expressly allow states to require Class A reporting requirements on mid-size carriers, either individually or industry-wide, as a matter of independent state law. These options are necessary to permit states, with intimate knowledge of the local fauna, to exercise the regulatory oversight they need to promote competition, prevent cross-subsidization, and prohibit network disinvestment. (PaPUC-6)
- The PaPUC disagrees with SBC's proposal to substitute the Generally Accepted Accounting Principles (GAAP) for Class A and Class B carriers. The PaPUC believes that the FCC's Accounting and Cost Allocation requirements are far more accurate and reflective of telecommunications reality than accounting practices designed for already-competitive industries. (PaPUC-7)
- The PaPUC urges the FCC to retain the accounting treatment of revenues from pole attachments given the critical role pole attachments, and the cost for those

attachments that are reflected in accounting revenues, plays on promoting competition. (PaPUC-7)

- The PaPUC does not believe that the reduced accounting and cost allocation requirements proposed for Class B carriers, which serve 10% of the local telecommunications market according to FCC, is relevant for RBOCs and GTE that serve the remaining 90%. The PaPUC particularly urges the FCC to dismiss Arthur Anderson's recent suggestion that the FCC "simplify" all carrier accounting down to the Class B level. That recommendation, if adopted, will reduce the FCC and state's ability to monitor accounting and cost allocation behavior that is harmful to competition. (PaPUC-7 and PaPUC-8)
- The PaPUC also disputes the FCC's proposal to dilute the cost allocation manual (CAM) requirements for Class B carriers. The PaPUC rejects the conclusion that fewer competitive services and products necessarily translate into fewer incentives to discriminate, cross subsidize, or disinvest in the network. The PaPUC believes that reduced Accounting and Cost Allocation approaches, even if adopted, should not extend to CAM requirements. (PaPUC-8)
- The PaPUC supports the FCC's proposal to reduce the frequency of independent audits for Class B carriers. However, Class A carriers should continue to be audited at the current level. The PaPUC also urges the FCC to reject the use of "attest audits" since they are far less extensive and thorough than the current methodology. (PaPUC-8)

- The PaPUC urges the FCC to retain the express authority to impose Class A accounting and cost allocation requirements on mid-size carriers, either individually or industry-wide, in response to changed circumstances, *sua sponte*, or at the request of a state commission. (PaPUC-5)”

The OCC would like to reserve the right to supplement its initial comments as this docket process continues.